



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

HELD ON
Tuesday, July 30, 2013
10:30 a.m., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:36 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Mr. Mike Smarik, Vice-Chair
Mr. Brian McNeil

Absent: Dr. Richard Jacob

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the May 9, 2013 Minutes of the Operations and Audit Committee (OAC) Meeting

Motion: Mr. Mike Smarik moved the Committee accept the minutes of the May 9, 2013 OAC meeting. Mr. Brian McNeil seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding an ASRS Risk Assessment of Agency Budget and Workforce

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Committee regarding the ASRS Risk Assessment. Mr. Guarino gave a brief description of the risks, ranked based on impact, the controls in place to minimize risk, and the strategies employed by the ASRS to reduce these risks.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Budget Related Topics Including:

- A. Update on Status of the ASRS Appropriated Budget Requests for Fiscal Year (FY) 2014 and FY 2015.**
- B. Presentation of the Estimated ASRS Administrative and Investment Spending Plan for FY 2014 and FY 2015.**
- C. Discussion of the Plan for the Reallocation Between Base Appropriations and Continuous Appropriations**

After opening remarks on the topic, Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, who addressed the Committee regarding the Fiscal Year (FY) 2014 and FY 2015 appropriated budget submission and the estimated FY 2014 and FY 2015 administrative and investment budget. Mr. Guarino and Ms. Rozen led discussions of budget areas in the submission including workforce retention risks and management strategies, and the continuously appropriated funding projections for FY 2014 and FY 2015.

Mr. Guarino presented a plan for the reallocation between base appropriations and continuous appropriations. Mr. Guarino noted continuous appropriations would be used for a portion of staff salaries for the first time, specifically investment management and staff involved in the administration of pension processing. Trustees had some questions and Mr. Guarino led the discussion.

Motion: Mr. Mike Smarik moved to accept the spending plans as presented and forward them to the ASRS Board for review and approval. Mr. Brian McNeil seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the ASRS Long Term Disability Program Contract Renewal

Mr. Patrick M. Klein, Assistant Director, External Affairs Division, addressed the Committee regarding the contract renewal for Sedgwick for the plan year, July 1, 2013 through June 30, 2014. He stated this was the third year of the five-year contract between the ASRS and Sedgwick and that Sedgwick submitted a renewal offer of a 1.3% increase. Mr. Klein noted the ASRS has had a very good relationship with Sedgwick for many years. Mr. Klein said ASRS staff thought the adjustment was appropriate because the general increase in the inflation rate was the same amount.

6. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Dental Insurance Contract Renewal

Mr. Klein addressed the Committee regarding the contract renewal for Assurant for calendar year 2014. He stated this was the fourth year of the five-year contract between the ASRS and Assurant and that Assurant submitted a renewal offer of a 0% increase. Mr. Klein noted the ASRS has had a very good relationship with Assurant.

7. Review of Recently Conducted Audits

- **Arizona Department of Transportation**
- **ASRS Records Management**

Mr. Bernard Glick, Chief Internal Auditor, presented the Committee with the audit of Arizona Department of Transportation (ADOT). There were two findings: 1) ADOT did not remit ASRS contributions for 30 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, and 2) ADOT did not remit ASRS contributions on all eligible compensation for one employee. The amount due the ASRS is \$157,096.

Mr. Glick noted the ASRS Management Response was as follows: 1) We concur with ADOT/ADOA's acknowledgement of the two employees who were identified as ineligible for ASRS membership, and 2) Though the audit uncovered 185 other potential ineligible employees, there were sufficient historical reasons to not find this group ineligible for ASRS membership, and 3) Also, ADOA has taken substantive steps to mitigate the possibility of erroneous ASRS enrollments going forward.

Trustees engaged in discussion with staff regarding past communications between the ASRS and ADOT. Mr. Klein noted a 1995 ASRS communication to ADOT discussing a particular clerical pool employee was relied upon and misinterpreted to apply to all clerical pool employees. A Trustee noted recently ADOA and the ASRS have closely collaborated to ensure greater clarity, so erroneous ASRS enrollments will not occur in the future. Mr. Matson noted one ASRS Board member suggested a remedy whereby future audits of the state of Arizona are conducted through ADOA, such that ADOA will be the central communicator to all state agencies regarding this type of issue.

Mr. Glick presented the Committee with the audit of ASRS Records Management. There were six findings: 1) The agency currently has a Records Management program of policies and procedures in place to properly create, store, and dispose of documents that it is responsible for, and 2) Several divisions at the ASRS have the ability to change addresses/names on the member account database. The divisions do not always follow the prescribed procedures for changing demographics consistently, and 3) The agency should consider removing from the computer system: Members' PERIS accounts, whose death date is greater than 10 years; and reports on the "P" drive that are older than the required retention period, and 4) Records retention schedules identified in the Arizona State Library Archives (ASLA) for paper records are not being consistently followed, and 5) the ASRS Data Classification Policy should be amended regarding who is to be notified when a security breach occurs, and 6) Imaging inefficiencies noted during the audit.

8. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending June 2013. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits.

9. Request for Future Agenda Items

No future agenda items were requested by the Committee.

10. Call to the Public

No members of the public were present.

11. Adjournment of the OAC

Mr. Tyne adjourned the meeting at 11:57 a.m.

Respectfully Submitted by,

Lisa Maddox
Committee Administrator

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date